PUMATECH INC
Form 10-K
October 21, 2003
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2003

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-21709

PUMATECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0349154**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	Identification No.)
2550 North First Street, Suite 500	**95131**
San Jose, California **(Address of principal executive offices)**	**(ZIP Code)**

(408) 321-7650

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value; Preferred Stock Purchase Rights

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $47,986,910 at January 31, 2003, the registrant s most recently completed second fiscal quarter.

The number of the registrant s $0.001 par value Common Stock outstanding as of September 30, 2003, was 49,648,504 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III

The registrant intends to file a definitive joint proxy statement/prospectus for its annual meeting of stockholders within 120 days of the end of the fiscal year ended July 31, 2003. Portions of such joint proxy statement/prospectus are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K contains certain forward-looking statements that involve risks and uncertainties. Words such as anticipates, believes, expects, future, plan, intends, should, and similar expressions are used to identify forward-looking statements. These statements only projections based on current assumptions made by management. The actual results that we achieve may differ materially from those indicated in any forward-looking statements due to the risks and uncertainties set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and elsewhere in this Form 10-K. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report. Readers are urged to review and consider carefully the various disclosures made by us in this report and our reports filed with the Securities and Exchange Commission that inform interested parties about the risks and factors that may affect our business.

Overview

Pumatech, Inc. develops, markets and supports synchronization, mobile-application development, and mobile-application management/device management software that enables consumers, business professionals and information technology professionals to extend the capabilities of enterprise groupware and vertical applications, handheld organizers/computers, Web-enabled cellular phones, pagers and other wireless or wireline personal communications platforms. Designed to connect people with essential information, anytime and anywhere, our product family includes the following offerings:

Intellisync®, Enterprise Intellisync®, Enterprise Intellisync Server and Satellite Forms® software;

TrueSync® software developed by our new wholly owned subsidiary, Starfish Software, Inc.;

Intellisync for Oracle software;

Intellisync goAnywhere (formerly known as LoudPC) software recently acquired from Loudfire, Inc.;

our technology licensing software: the Intellisync Software Development Kit (Intellisync SDK) and our new Application Data Synchronization platform;

Synchrologic Mobile Suite enterprise server platform, resulting from the definitive merger agreement signed by Pumatech to acquire Synchrologic, Inc. A licensing agreement gives us the ability to sell Synchrologic s Mobile Suite beginning September 14, 2003. Should the acquisition fail to occur, the licensing will continue through the end of the three-year term of the agreement.

Pumatech was incorporated in California in August 1993 as Puma Technology, Inc. and we reincorporated in Delaware in November 1996. Our principal executive offices are located at 2550 North First Street, Suite 500, San Jose, California 95131, and our Web address is www.pumatech.com. The information posted on the Web address is not incorporated into this Annual Report on Form 10-K.

We have organized our operations into a single operating segment encompassing the development, marketing and support of software and services that provide synchronization, mobile application development, application/device management, real-time remote information access, and secure Virtual Private Network (sVPN obtained from our acquisition of substantially all of the assets of Spontaneous Technology, Inc. on September 17, 2003). For further discussion of financial information related to our operating segment, as well as geographic areas, refer to note 16 to Consolidated Financials Statements set forth in Part IV of this Annual Report on Form 10-K.

We license our software products directly to corporations, original equipment manufacturers and business development organizations worldwide. In addition, we sell our retail products through several distribution

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channels both in the United States and internationally, including major distributors, resellers, computer dealers, retailers and mail-order companies in the United States. Internationally, we are represented by over 100 distributors and resellers in North America, Europe, the Asia-Pacific region, South America and Africa.

Available Information

All reports we filed electronically with the Securities and Exchange Commission (SEC), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, and other information and amendments to those reports filed electronically (if applicable), are accessible at no cost on our Web site at www.pumatech.com. They are also available by contacting our Investor Relations at invrel@pumatech.com or 408-321-7650. These filings are also accessible on the SEC s Web site at www.sec.gov. The public may read and copy any materials we filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information for the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Industry Background

In recent years, significant advancements in miniaturization, visual displays, long-life batteries and portable communications have led to the introduction of many innovative, new mobile computing devices. These highly portable devices allow users to work and communicate while they are away from the office and have fueled the significant growth of mobile computing. The growth of the mobile computing industry began with the widespread adoption of notebook computers, which provided mobility and an extension of corporate enterprise data. This was followed by the emergence of handheld devices to which personal information was delivered locally from a desktop personal computer (PC). Today, in this period of anytime, anywhere access, the mobile computing industry is capitalizing on both wired and wireless access to information that can reside on a PC, an intranet/corporate server or even on the Internet. This information or content is often highly customized, based on distinct user preferences.

As a result of an increase in worldwide use of mobile communications, the mobile computing market has been on a steady growth path since the mid-1990s. Smart electronic consumer devices, such as personal digital assistants (PDAs, also known as handhelds), smart phones and pagers, have become more broadly available and adopted, and other mobile communications services have become more widely accessible and affordable, providing data storage and information management capabilities to the mobile business professional. Today s popular handheld devices include Palm OS®-based solutions from Palm, Inc., Sony Corporation, Handspring, Inc. and Symbol Technologies; Pocket PC/Windows CE -based devices from Hewlett-Packard Company, Toshiba America, Inc., Dell, Inc. and others; Symbian-based handhelds from companies like Psion PLC; and BlackBerry devices from Research in Motion. Despite a decline in sales of traditional PDAs in the last two years, as an effect of the overall soft economy, sales are growing for smartphones and other wireless mobile devices. According to a recent report from industry analyst eTForecasts, when smartphones are included in PDA sales, the worldwide PDA demand in 2002 did not decline, but instead it reflected a small sales increase. In addition, industry analyst International Data Corporation (IDC) projects that, even though 2002 was a challenging economic year worldwide, anticipated improvement of economic conditions in the later part of 2003 and 2004 and the momentum of increased activity and larger deployments of wireless and mobile solutions are expected to bring forth increased volume and revenue growth to the market. IDC expects that worldwide revenue for the mobile computing middleware market will increase over the next few years with a compound annual growth rate (CAGR) of 36.5% through 2007. IDC forecasts that the market will increase from $333 million in 2002 to $1.58 billion by 2007.

As more types of new mobile computing devices become available to business professionals and enterprises, users are faced with the difficulty of exchanging information among these various devices. This problem of interoperability is caused by the need to exchange information among different hardware devices, operating systems and applications. Hardware platforms range from high-speed Pentium PCs with hundreds of megabytes

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of memory and gigabytes of storage, to shirt pocket organizers, with specialized processors and limited memory and storage. In addition, these devices use numerous operating systems, such as Windows 2000, Windows XP, Windows NT, Pocket PC/Windows CE, DOS, Palm OS, Symbian and others, and utilize an even greater range of information management applications, databases and data formats. Enabling these devices to communicate, exchange and synchronize information is a complex and challenging task. Simply facilitating synchronization requires data-level, or content-aware, synchronization technology to maintain complete, up-to-date and accurate information. For example, content-aware data synchronization technology allows users to exchange addresses from the Address Book software application on a Palm OS handheld with Microsoft Outlook on a desktop PC or Lotus Notes on a corporate server, updating only the fields that have been most recently modified, rather than copying one file over another, thereby synchronizing both databases with the latest information.

With the increasing mobility of work forces, as well as additional competitive pressures, business professionals and enterprises are continuously seeking ways to improve productivity and, as a result, are increasingly using the growing number of new, innovative mobile computing devices. In order to manage information effectively, these users need convenient connectivity and synchronization solutions for the specific combination of devices and applications that they use. These software solutions must allow users to synchronize information maintained separately on multiple devices (for example, contact databases maintained by a mobile professional using a handheld computer in the field and by a support colleague using a desktop PC in the office). A software solution that links such different devices must address multiple hardware architectures, operating systems, communications architectures and application-specific data formats and structures.

Our Technology Solutions

We provide enterprise-level software solutions, anchored by the award-winning Intellisync family, the Synchrologic Mobile Suite enterprise server platform (resulting from our licensing agreement with Synchrologic dated September 14, 2003), Satellite Forms software, TrueSync Server platform, secure Virtual Private Network (sVPN) technology (obtained from our acquisition of substantially all of the assets of Spontaneous Technology, Inc. on September 17, 2003) and our technology licensing offering the Intellisync Software Development Kit (Intellisync SDK). Our infrastructure solutions are designed to increase productivity for the enterprise by allowing users to access, exchange and synchronize easily information stored on a variety of different computing devices. Our solutions enable the enterprise to be a place where the most current information is rapidly available and accessible. Our technologies and products allow users to access information with easy-to-use applications, saving time and money.

We also work closely with companies to embed our technologies into new and existing applications by combining off-the-shelf products and custom-built applications. By operating on multiple platforms and streamlining delivery of information from common repositories such as intranets, the World Wide Web, corporate PIM (personal information management) applications and databases, we extend information to the companies points of business.

Intelligent, content-aware data synchronization: our solutions enable up-to-the-minute e-mail, PIM and database information to be reflected across all devices utilized in the enterprise from desktop and notebook personal computers (PCs) to handhelds, phones and pagers. Our multi-patented synchronization technology provides content-aware data synchronization among this growing number of mobile devices and essential PC applications such as Microsoft Outlook, Lotus Notes and Novell GroupWise. Our technology seamlessly and transparently translates the information from one data format to another as the information is synchronized. Built on a powerful synchronization engine, it can expand via device- and application-specific connectors to accommodate new devices and applications. With the Intellisync SDK, we have enabled independent software vendors, device original equipment manufacturers and Internet-based services to build synchronization solutions for their products based on the Intellisync platform, further enhancing our standard product range, and have lowered our own development costs.

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Anytime, anywhere handheld access to corporate applications: With the Synchrologic Mobile Suite enterprise server platform, we are providing a single resource for synchronizing PIM, e-mail, and custom database information, both locally and remotely, between desktop PCs, servers, and mobile devices, and for managing handheld software and devices from one centralized location.

Centralized management: Through the Synchrologic Mobile Suite platform solution, and through our Enterprise Intellisync (desktop) software, we enable information technology (IT) managers to use a centralized administrator console to deploy quickly and easily software licenses, configure applications based on user needs, establish security privileges, and troubleshoot software by receiving and viewing detailed user logs.

Extending core applications to handheld devices: Our Satellite Forms MobileApp Designer software enables development of custom applications that operate on handheld devices and integrate with both server and desktop databases, thereby extending mission-critical corporate data to employees, when and where they need it.

Carrier-class synchronization: TrueSync Server software developed by our wholly owned subsidiary, Starfish Software is a highly scalable synchronization engine that provides multi-tier over-the-air and wireline synchronization between a heterogeneous mix of devices, applications and services. The TrueSync Server is SyncML 1.1 certified and supports a wide variety of platforms, databases, applications, protocols and transports, for broad interoperability. Its distributed architecture allows for scalability, high availability and redundancy for millions of users, making it an ideal solution for carriers.

Real-time, secure, remote information access: Our Intellisync goAnywhere (formerly known as LoudPC) technology, acquired from Loudfire, Inc. on July 22, 2003, allows anyone with an Internet browser or Web-enabled phone to enjoy real-time access to email and PIM data located in either Microsoft Outlook or Outlook Express. The product also provides secure access to pre-specified files residing on a host PC.

Secure VPN solutions: our secure, carrier-grade enterprise sVPN technology obtained from our acquisition of substantially all of the assets of Spontaneous Technology on September 17, 2003 is designed to provide remote, secure access to corporate applications from any wireless device or operating system such as Microsoft (NT & Pocket PC), SUN (Solaris, Java, J2ME), Palm and Symbian, without requiring infrastructure changes by IT.

Network and device independent solutions for broad interoperability: Our products provide connectivity and synchronization among industry-leading PCs and mobile computing devices, operating systems and applications. Our products operate with major PC operating systems for Windows 98, Windows 2000, Windows XP, Windows Me, and Windows NT, as well as several proprietary operating systems. We also provide interoperability across a wide range of industry-standard and vendor-specific applications by supporting multiple data formats.

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Products

We offer a wide range of software technologies and services to the original equipment manufacturers (OEMs), enterprise, retail and online markets. These offerings allow users to synchronize critical information between both wired and wireless handheld devices and the vast stores of information found in corporate databases, intranets, the Internet and individuals personal computer (PC) applications. We also provide the tools needed to create custom handheld applications, manage mobile software applications and devices, remotely access Outlook and PC files in real time, and provide secure Virtual Private Network (sVPN obtained from our acquisition of substantially all of the assets of Spontaneous Technology, Inc. on September 17, 2003) access to corporate applications from any wireless device or operating system.

Product Name	Description	Introduction Date
Desktop-based Solutions		
Intellisync®	Enables direct synchronization of calendars, e-mail, contacts, memos, and tasks between Palm OS, Pocket PC 2002, Pocket PC/Windows CE or Symbian Release 5.0-compatible handhelds and the leading PC-based PIM (personal information management), contact management and groupware messaging applications. With its patented Data Synchronization Extensions (DSX) Technology engine, Intellisync provides simultaneous synchronization of handheld organizer data with multiple PC applications such as Microsoft Outlook (including Outlook 2002) and Outlook Express, Lotus Notes and Organizer, Novell GroupWise, ACT!, and others.	August 1996
Enterprise Intellisync® (with integrated Administrator s Console)	Enterprise Intellisync software provides compatibility with all of the PIM software, handheld devices, and desktop operating systems that Intellisync supports. In addition, an integrated Administrator s Console enables preconfiguration, deployment, management, and troubleshooting of Intellisync software from a single, centralized location. Enterprise Intellisync automatically synchronizes calendar, e-mail, contacts, memos, and tasks with PIM, contact management and groupware applications, including Microsoft Outlook (including Outlook 2002/XP), Lotus Notes and Organizer, ACT!, and Novell GroupWise. Enterprise Intellisync can be used in conjunction with Microsoft Systems Management Server or other systems management software to distribute configured and licensed copies of Intellisync.	June 2001
Intellisync for Oracle	Provides direct, two-way synchronization of calendar, contacts, and tasks between Oracle E-Business Suite and both Microsoft Outlook and Palm OS handhelds.	November 2002
Intellisync: Phone Edition	Software which enables two-way synchronization of contacts between Microsoft Outlook and popular mobile phones from Nokia, Inc., Motorola, Inc., Samsung Electronics, Inc., and LG Electronics, Inc. Intellisync: Phone Edition synchronizes contacts directly between the user s default Outlook Contacts folder and its mobile phone. It also automatically notifies the user when the number of contacts it is about to synchronize exceeds the storage available on its phone.	October 2003

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Product Name	Description	Introduction Date
Intellisync goAnywhere (formerly known as LoudPC recently rebranded and repackaged)	Technology acquired from Loudfire, Inc., Intellisync goAnywhere is designed to provide real-time, secure remote access to Microsoft Outlook and PC data files from any device equipped with a Web browser PCs, Mac OS computers, Palm OS/Pocket PC handhelds, or cellular phones.	July 2003 (acquired)
Server-based Solutions		
Synchrologic Mobile Suite platform (Pumatech has a licensing agreement with Synchrologic to begin selling these solutions immediately, as part of Pumatech s definitive agreement to purchase Synchrologic, Inc.)	Designed to extend an organization s existing technology infrastructure to mobile and remote staff, delivering access to enterprise applications and databases, file content, email and PIM data, intranet sites, and Web content. It is also designed to provide tools for remotely managing mobile devices. Synchrologic Mobile Suite is composed of four core products: Synchrologic Email Accelerator, Synchrologic Data Sync, Synchrologic File Sync and Synchrologic Systems Management.	September 2003 (three-year licensing agreement with Synchrologic)
Enterprise Intellisync Server	Provides a single solution for synchronizing both PIM and custom database information locally and remotely between servers and mobile devices.	August 2002
TrueSync Server	TrueSync Server Products and Solutions provide multi-tier over-the-air and wireline synchronization between a heterogeneous mix of devices, applications and services. The server platform features a flexible and extensible component-based architecture using open standards such as SyncML, Java and XML (Extensible Markup Language).	March 2003 (acquired)
SyncML Device Management Solutions	SyncML device management encompasses technologies utilized by wireless operators and corporate IT departments to perform complex remote configuration of mobile devices on behalf of end users. Device management solutions enable over-the-air customization, personalization and servicing of wireless handsets and PDAs. The Open Mobile Alliance (OMA), an organization chartered with developing mobile standards, has initiated a technology track to build a SyncML DM protocol as the open, universal industry standard for remote device management of networked devices. Starfish Software, Pumatech s wholly owned subsidiary, was the first company to certify and deploy commercially SyncML-enabled server solutions.	March 2003 (acquired)
Spontaneous Technology s secure Virtual Private Network (sVPN) technology	Designed to enable secure, carrier-grade enterprise VPN solutions that extend existing corporate applications to any wireless device and operating system, including Microsoft (NT & Pocket PC), SUN (Solaris, Java, J2ME), Palm and Symbian. This technology is designed to allow carriers enterprise customers the freedom to deploy new applications quickly and affordably without the need for massive new infrastructure and investment.	September 2003 (acquired)

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Product Name	Description	Introduction Date
Development Solutions		
Satellite Forms MobileApp Designer	A rapid application development (RAD) tool for Palm OS and Pocket PC 2002-based handhelds, Satellite Forms MobileApp Designer lets developers quickly create and deploy custom handheld applications that can be integrated with desktop or network databases, including Oracle, DB2, and Microsoft Access, or directly with server-based data via the Synchrologic Mobile Suite (available separately).	July 1998 (acquired)
Intellisync Software Development Kit (Intellisync SDK)	Provides a solution for adding intelligent synchronization to enterprise applications, mobile devices and Web-based services.	February 1998
Intellisync for Web Toolkit	A synchronization solution for Intellisync SDK licensees who wish to synchronize their Web-based PIM applications with leading PIMs and devices, including Microsoft Outlook, Palm OS handhelds and many others. Intellisync for Web includes a pre-built, customizable Intellisync desktop client and Connector.	July 2000 (acquired)
Application Data Synchronization Platform	Our Application Data Synchronization Platform addresses a major issue facing corporate IT management that of enterprise data synchronization and integration as corporations today are faced with expensive applications and systems that do not work together effectively, making it important to have solutions that synchronize not just mobile devices, but also with PC- and server-based applications. The platform is built upon standard synchronization protocols such as XML that produce flexible solutions tailored to the enterprise specific needs. Application Data Synchronization solutions can be either desktop-based or server-to-server. A desktop-based solution offers the ability to synchronize appointments, contacts, memos, tasks and email between a vertical enterprise application and Microsoft Outlook, Lotus Notes and Novell GroupWise on the desktop, or Palm OS and Pocket PC handhelds via cradle-based synchronization. A server-to-server solution enables direct, server-based synchronization of appointments, contacts, tasks and email between a vertical enterprise application, like CRM (customer relationship management), and both Microsoft Exchange and Lotus Domino.	May 2003

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Sales and Marketing

We market and sell our products through several channels in the United States and internationally, including retail, the Web, value-added resellers, system integrators, original equipment manufacturers (OEMs) and directly to enterprise customers.

In the United States, our sales organization works directly with major distributors, resellers, computer dealers, retailers, mail-order companies and Web stores to distribute our retail packaged products. Internationally, we market and sell through selected distributors and republishers that focus on specific geographic and market segment areas. These international partners operate as an extension of our marketing and sales organizations, developing the appropriate sales channels in their regions. They also work with local resellers as well as local offices of our OEM customers to develop specific marketing and channel promotions for their regions. As of July 31, 2003, we were represented by over 100 distributors and resellers in North America, Europe, Asia Pacific, South America, and Africa, and are continuing to expand our international reach as appropriate distributors or republishers are found. For further discussion of risks from our international operations, see the discussion below under the caption *Risk Factors We are dependent on our international operations for a significant portion of our revenues*.

Consistent with industry practice, we provide our distributors with stock balancing and price protection rights. These rights permit our distributors to return slow-moving products to us for credit and to receive price adjustments for inventories of our products held by distributors if we lower the price of those products. We recognize revenues on products shipped to distributors at the time the merchandise is sold by the distributor; as a result, the immediate effect of returns and adjustments on our quarterly operating results has been minimal to date.

One distributor, Ingram Micro US, accounted for 10%, 17% and 14% of our total revenue during fiscal 2003, 2002 and 2001, respectively.

We strive to be both a technology and marketing partner with our OEM and strategic customers. Our sales and marketing organization sells our products directly to our OEM partners, distributors, and end users. We work closely with OEM partners on their new hardware products by providing them with technical input, thereby helping to ensure that our software products will work successfully with the OEM s hardware products. We also train and educate the OEM s sales and marketing organizations on our products, allowing them to act as our virtual sales force to their channels and direct customers. In addition, we work closely with our hardware and software strategic partners to develop effective marketing programs designed to increase sales. Although several OEMs are subject to certain contractual minimum purchase obligations, there can be no assurance that any particular OEM will satisfy the minimum obligations. Weakening demand from any key OEM and the inability to replace revenue provided by such an OEM could have a material adverse effect on our business, operating results and financial condition. We maintain individually significant receivable balances from major OEMs. If these OEMs fail to meet their payment obligations, our operating results could be materially and adversely affected.

Our agreements with OEMs, distributors, and resellers generally are nonexclusive and may be terminated on short notice by either party without cause. Furthermore, our OEMs, distributors, and resellers are not within our control, are not obligated to purchase products from us, and may represent other lines of products, including competing products. A reduction in sales effort or discontinuance of sales of our products by our OEMs, distributors, and resellers could lead to reduced sales and could materially adversely affect our operating results.

Increasingly, we are also distributing our software products directly to corporate customers through our enterprise licensing programs of Enterprise Intellisync, Intellisync for Oracle, Satellite Forms and Synchrologic Mobile Suite (a licensing agreement gives us the ability to sell Synchrologic s Mobile Suite beginning September 14, 2003). Our software products have been licensed by, and embedded into solutions offered by over 200 companies. Additionally, our Intellisync synchronization technology has a presence in virtually all of Fortune 1000 companies.

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We have sales and marketing offices located in the San Jose, California and Tokyo, Japan and a number of sales representatives working from their homes in the United States, the United Kingdom, Netherlands and Germany, to cover local territories.

In order to develop further our brand name recognition, we plan to continue to expand our joint marketing programs, marketing channel promotions and bundling arrangements with our strategic partners.

Customer Support

Our service and support organization provides secondary technical support to OEMs, primary technical support to enterprises, retailers and end users, and education and training services to enterprises, OEMs and retailers. We also use an outsourced vendor to provide first line technical support related to the majority of our retail products. Our current OEMs typically have software maintenance agreements with us. These agreements provide for technical support and include maintenance of our products in accordance with specifications contained in our product guidelines, as well as access to technical support personnel by telephone, fax and e-mail. Customers under license agreements are typically entitled to certain product updates and modifications, primarily bug fixes. Our OEMs and some of our retail channel partners provide telephone and initial support to end-users.

Seasonality

Typically, the market for our products and services experience a slight degree of seasonal variations in demand, with weaker revenue in July and August because of reduced corporate buying patterns during the vacation season. This seasonality is especially notable in Europe. Retail sales can also be weak in the months of January and February following typically stronger sales in the November-December time frame. We experience fluctuations in the demand for our products and services consistent with the fluctuations experienced in the industry overall.

Competition

The market for our software remains intensely competitive and characterized by rapid technological changes and evolving standards. We expect competition to intensify as current competitors expand their product offerings and more and more competitors enter the market to explore significant future business opportunities in the wireless market in realization that wireless is rapidly replacing wired infrastructure and becoming a pervasive technology. To maintain or increase our competitive advantage, we will continually need to enhance our current product, service and technology offerings, introduce new product features and enhancements, and expand our professional service capabilities.

The principal competitive factors affecting the market for our software are:

- the level of quality, reliability and compatibility of the products and services provided;
- the features and functionality of our products;

brand recognition and reputation for providing trusted products and services;

the level of security of the products and services provided;

price;

convenience and breadth of products and services offered;

the quality and market acceptance of new enhancements to our current services and features; and

OEM relationships and other strategic arrangements with third parties.

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We believe we compete favorably overall with respect to these factors.

We believe that users will want to be able to license solutions from a single vendor to address their complete needs, and that our software components will support a broad range of mobile devices and services to allow us to compete favorably with other companies with no similar platform or whose mobile solutions are highly fragmented.

We believe that users will want to be able to utilize synchronization functionality with a wide variety of mobile computing devices and software applications, and that our standards-based approach will continue to allow us to compete favorably with larger companies whose products may not be able to support such a degree of interoperability. Our strategic relationships with hardware and software vendors enable us to provide interoperability among a broader range of applications than many of our current and potential competitors.

We currently face direct competition with respect to our Intellisync, Enterprise Intellisync, Synchrologic Mobile Suite, Intellisync goAnywhere, Satellite Forms, Intellisync: Phone Edition, TrueSync and Spontaneous Technology s secure Virtual Private Network (sVPN) products. Intellisync retail and enterprise products face competition from Sybase, Inc. s iAnywhere, Chapura, Inc. s Pocket Mirror, Common Time s Cadenza mNotes, Extended Systems, Inc. s OneBridge Mobile Groupware, IBM Corporation s Lotus Software EasySync Pro, Microsoft, Inc s ActiveSync, Palm Desktop from Palm and others. Satellite Forms faces competition from Adobe Systems, Inc., Aligo, Inc., AppForge, Inc., Covigo, Inc., iConverse, Inc., Metrowerks Code Warrior, mPortal, Inc., Pencel Corporation, Pendragon Software Corporation, Penright Corporation s MobileBuilder and others. Our server-based Mobile Suite software faces competition from Aether Systems, CommonTime, Extended Systems, FusionOne, Inc., InfoSpace, Inc., Infowave Software, JP Mobile, Inc., Microsoft, Openwave, Inc., Sybase, Inc., Synchrologic, Inc. (up until the closing date of the planned acquisition), Wireless Knowledge, Inc., XcelleNet, Inc. and others. Intellisync goAnywhere technology competes with offerings from Symantec Corporation (pcAnywhere) and Expertcity, Inc. (GoToMyPC) and others. Our Intellisync: Phone Edition faces competition from FutureDial, Inc. s SnapSync and Susteen, Inc. s DataPilot and others. TrueSync and sVPN face competition from Visto Corporation, Seven Networks, Inc. and others.

In addition to direct competition noted above, we face indirect competition from existing and potential customers that may provide internally developed solutions for each of our technology licensing components. As a result, we must educate prospective customers as to the advantage of our products versus internally developed solutions. We currently face limited direct competition from major applications and operating systems software vendors who may in the future choose to incorporate data synchronization functionality into their operating systems software, thereby potentially reducing the need for OEMs to include our products in their notebook and desktop personal computers (PCs). For example, Microsoft s inclusion of certain features permitting data synchronization between computers utilizing the Windows 98, Windows 2000, Windows Me, Windows NT or Windows XP operating system may have the effect of reducing revenue from our software if users of these operating systems perceive that their data synchronization needs are adequately met by Microsoft.

Furthermore, current or potential competitors have established or may establish financial and strategic relationships among themselves or with existing or potential customers or other third parties to increase the ability of their products to address the needs of customers. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share, which would harm our business.

In addition, certain companies with whom we compete or may compete in the future, including internal software development groups of our current and potential customers, have substantially greater financial, marketing, sales and support resources and may have more brand-name recognition than we do. There can be no assurance that we will be able to either develop software comparable or superior to software offered by our current or future competitors or to adapt to new technologies, evolving industry standards and changes in

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customer requirements. In addition, the PC and mobile computing device markets experience intense price competition, and we expect that in order to remain competitive, we may have to decrease our unit royalties on certain products.

Also, refer to the discussion below under the caption *Risk Factors We face fierce competition in the market for mobile computing synchronization products and services, which could reduce our market share and revenues.*

Research and Development

We seek to capitalize on our expertise in data synchronization and mobile infrastructure technology by developing products for new applications and increasing the functionality of existing products. We plan to continue to develop new products and expand our technology licensing components with additional mobile solutions based on our existing and acquired technologies.

The markets for our products are characterized by rapidly changing technologies, evolving industry standards, frequent product introductions and short product life cycles. Our future success will depend to a substantial degree upon our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and emerging and evolving industry standards. We plan our budget for research and development based on planned product introductions and enhancements. However, actual expenditures may significantly differ from budgeted expenditures. A number of risks are inherent in the product development process. The development of new, technologically advanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of technological and market trends. The introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruption in customer ordering patterns, avoid excessive levels of older product inventories and ensure that adequate supplies of new products can be delivered to meet customer demand. There can be no assurance that we will successfully develop, introduce or manage the transition to new products. We have in the past, and may in the future, experience delays in the introduction of our products, due to both internal and external factors. Any future delays in the introduction or shipment of new or enhanced products, the inability of such products to gain market acceptance or problems associated with new product transitions could adversely affect our operating results, particularly on a quarterly basis. Also, refer to the discussion below under the caption *Risk Factors Our market changes rapidly due to changing technology and evolving industry standards. If we do not adapt to meet the sophisticated needs of our customers, our business and prospects will suffer.*

Employees in our engineering group are also engaged in product development and localization efforts for existing products. Product maintenance and customer support responsibilities are shared by engineering group employees on an as-needed basis. In developing new products or enhancements, we work closely with current and prospective customers, as well as with industry experts, to ensure that our products address current problems and emerging requirements. We believe that such collaboration is critical to develop and improve our products and services. Our engineering group also works closely with our sales and marketing and professional services groups to develop products that meet real customer needs. We also complement our engineering capacity with a number of European software development partners performing certain product engineering-related projects and other engineering requirements that may arise.

We opened our new research and development facility in Sofia, Bulgaria during fiscal 2003. The facility was established to take advantage of the considerable local knowledge and expertise in the areas of information technology and software programming, cost efficiencies and to offer extensive development, support and management for our current projects and potential software solutions.

Furthermore, our recent acquisitions of Starfish Software, Inc. and substantially all of the assets of Loudfire, Inc. and Spontaneous Technology, Inc. allow us to leverage the significant technologies we acquired. We expect

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that the integration of these acquired technologies will accelerate our ability to meet new product requirements and enhancements. The acquisitions have also given us expanded research and development capabilities with employees that have extensive knowledge and experience in the synchronization and mobile infrastructure software solutions.

In fiscal 2003, 2002 and 2001, research and development expenses were $7.4 million, $15.2 million and $23.7 million, respectively.

As part of our strategic plan, with our recent acquisitions, our engineering group is currently aiming their efforts at expanding focus from cabled synchronization to synchronization for wireless handhelds, smartphones, laptops and tablets, at extending our core synchronization technology to increase scalability and extensibility, and at supporting next-generation wireless technology and device platforms. We also continue efforts on enhancing our Application Data Synchronization platform to provide further value to our enterprise customers. We will continue to develop this platform to integrate and synchronize vertical enterprise applications, such as CRM (customer relationship management) software, with corporate groupware, either on the desktop or via server-to-server connectivity.

Professional Services Group

We believe that delivering quality professional services provides us with a significant opportunity to differentiate ourselves in the marketplace. Whether companies are creating a new enterprise infrastructure or customizing a current one, our professional services organization may assist them with all phases of the project. This team specializes in producing software that delivers a measurable competitive advantage for customers deploying our solutions, as well as applications from other software developers.

By transforming emerging technologies into robust, reliable, revenue-producing products and services, our professional services organization has the expertise to develop enterprise solutions that combine handheld, mobile, wireless, desktop, Internet, synchronization, back-office applications and database technologies. The Professional Services team works across multiple phases of development projects: business analysis and strategic technology consulting, project management, design, engineering, quality assurance, software testing, localization and technical writing. The organization s clients have included America Online, Inc., NEC Corporation, International Business Machines Corporation, and Panasonic Mobile Communications Company Limited. Our professional services group recently delivered innovative and flexible PIM synchronization technologies as part of MSN s (Microsoft Network) version 8 launch, and is currently working to provide America Online users with a host of new capabilities leveraging the power of Intellisync.

Acquisitions

The markets in which we compete require a wide variety of technologies, products, and capabilities. Our strategy of acquiring assets or businesses with complementary products, technologies and engineering resources has resulted in the completion of a number of acquisitions as described below. We expect these acquisitions and future acquisitions will enhance our ability to develop new technologies, expand our core technological capabilities and provide additional resources for enhancing and developing new products and solutions with broad market applications. Mergers and acquisitions of high-technology companies are inherently risky. No assurance can be given that our previous or future acquisitions will be successful or will not materially adversely affect our financial condition or operating results. The risks associated with acquisitions are discussed below under the caption *Our recent and planned future acquisitions could require significant management attention and prove difficult to integrate with our business, which could distract our management, disrupt our business, dilute stockholder value and adversely affect our operating results.*

In September 2003, we announced that we have entered into a definitive merger agreement dated as of September 14, 2003, to acquire Synchrologic, Inc. headquartered in Alpharetta, Georgia. Synchrologic s product

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line provides mobile access to enterprise applications, email and PIM data, file content, intranet sites, and Web content, while giving information technology the tools to manage mobile devices remotely.

In September 2003, we acquired substantially all of the assets of Spontaneous Technology, Inc. of Salt Lake City, Utah. Spontaneous Technology is a provider of enterprise secure Virtual Private Network (sVPN) software designed to extend existing corporate applications to most wireless devices.

In July 2003, we acquired substantially all of the assets of Loudfire, Inc. of Tulsa, Oklahoma, developer of LoudPC software (recently rebranded and repackaged and now called Intellisync goAnywhere). Intellisync goAnywhere allows anyone with an Internet browser or Web-enabled phone to enjoy real-time access to email and PIM data located in either Microsoft Outlook or Outlook Express. The product also provides secure access to files or folders residing on a host personal computer.

In March 2003, we acquired all of the capital stock of Starfish Software, Inc., a wholly owned subsidiary of Motorola, Inc. of Schaumburg, Illinois. Starfish, headquartered in Scotts Valley, California, is a provider of end-to-end mobile infrastructure solutions based on integrated platforms composed of server, desktop and device software for mobile data synchronization, wireless connectivity and device management.

In November 2000, we acquired certain intellectual property and other assets of SwiftTouch Corporation of Bedford, Massachusetts, a provider of Web-based Universal Access Solutions.

In October 2000, we acquired select assets and assumed certain liabilities of The Windward Group, a wholly owned subsidiary of Vanteon Corporation, of Rochester, New York. Windward, headquartered in Los Gatos, California, is a professional services company specializing in creating consumer and enterprise solutions that combine mobile, wireless, desktop, Internet and database technology.

Refer to the discussions under the caption *Acquisitions* set forth in Item 7, Part II of this Annual Report on Form 10-K for more information on the acquisitions.

Proprietary Technology and Intellectual Property

Our success depends significantly upon our proprietary technology. We rely on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and other measures to protect our proprietary rights. We also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and name recognition are essential to establishing and maintaining a technology leadership position. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. We therefore have established an intellectual property (IP) group to manage our copyrights, trademarks, patent prosecution, patent litigation, and IP licensing. The group is committed to the development, licensing, and monetization of our innovation. We currently have 50 issued United States patents that expire in 2012 through 2021 and have 58 patent applications pending. We also license seven patents from third parties.

Pumatech IP. We have been in the business of designing, developing and selling synchronization products since the early to mid 90s. It is in this area that we were awarded our first patent. We have been awarded 14 patents and have 19 more pending. From this activity, we believe we have learned a great deal about what it takes to build a robust synchronization product to deal with the many subtleties presented by the wide range of capabilities among the various PDAs, PIMs, enterprise applications and data bases that must be synchronized. Some of these are:

Matching differing syntax and semantics of comparable fields in different data sets field type, length, and encoding.

Tracking of changed records some data sets mark records that have been modified, while others do not.

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Record accessing some data sets use unique record identifiers, some do not.

Number of fields in a record servers generally have a large number of fields in a contact record, but only a small subset may be available in a PDA.

Memory availability a server has relatively unlimited memory to store large number of records, but a PDA does not.

Communications bandwidth the volume of data to be synced may be excessive for the available bandwidth leading to long and/or expensive syncs.

Communications medium the sessions for cabled connections are more robust than OTA (over-the-air) ones, where session interruptions and disconnects are more frequent.

NetMind IP. We acquired NetMind Technologies, Inc. in February 2000. NetMind software monitors Web sites for changes specified by individual users to be relevant and notifies the user when such changes occur. NetMind technology is protected by five patents and two more pending.

Starfish Software IP. We acquired Starfish Software, Inc. in March 2003. This acquisition significantly strengthened our synchronization position through the Starfish software products and the number of related issued and pending patents. Starfish has been issued 28 patents, many of them relating to synchronization, and has 12 more pending.

Loudfire IP. We acquired the assets of Loudfire, Inc. in July 2003 to provide a significant piece of our wireless, remote access strategy. The LoudPC software (recently rebranded and repackaged and now called Intellisync goAnywhere) we acquired from Loudfire is designed to allow anyone with an Internet browser or Web-enabled phone to access information on a remote computer stored in Outlook or Outlook Express and/or selected files. Loudfire software is based on patent-pending technology.

Spontaneous Technology IP. Our recent acquisition of the assets of Spontaneous Technology in September 2003 provided us with a significant piece of wireless, remote access strategy. Spontaneous Technology s secure Virtual Private Network (sVPN) technology allows enterprise applications to be securely accessed from outside the firewall using standard HTTP (Hyper Text Transfer Protocol) and enterprise ports, thereby providing additional wireless, remote access to corporate applications from Internet browsers and web enabled phones. sVPN is patent protected. Spontaneous Technology has been issued three patents and has 24 more pending which are related to sVPN as well as viral marketing technology.

Licensed IP. We also license patents from third parties and presently count s